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The Declining Independence of the United States

By GROSVENOR M. JONES

Assistant Chief of the Bureau of Foreign and Domestic Commerce,
Washington, D. C.

THE boast of the average American for some years has been that the United States produces practically all that it needs in the way of foodstuffs and raw materials. This has been the idea not only of the man of the street but also of the statesman. The boast of the citizen may be attributed to national pride and to a perfectly human tendency to brag. In the case of the statesman, the boundless extent of many of our natural resources and the rapidity with which they have been developed in recent years so amazes him that he is often inclined to magnify the degree of our economic self-sufficiency. Then too, statesmen of a certain school have been so much in favor of the exclusion of foreign goods that some of them were tempted to wish that the oceans surrounding our coasts were impassable gulfs so far as trade with other nations was concerned. These men proceeded on the theory that we could get along without commercial intercourse with other nations.

That the degree of our self-sufficiency was unduly magnified is only now beginning to dawn upon the average citizen. But if he stops to think he will note the changes that have come over the United States in the past half century and will be deeply interested to observe the effects of those changes. He will realize that many of our important foodstuffs, such as coffee, tea, cocoa, and tapioca, come from foreign lands and that as our population grows we become more and more dependent upon foreign countries for those products. If he considers the subject of clothing he will realize that we are absolutely dependent on foreign countries for our supplies of flax and silk and for certain classes of cotton, and that for a large part of our wool supplies we must now look abroad. These things are well known but in addition he should know that our manufacturing industries are importing much of their raw materials from foreign countries; that we are, for example, dependent on the Far East for tin and antimony; on Peru for vanadium;

on Russia, Brazil, and India for manganese of the best grades; on Russia and Colombia for platinum; on Canada for nickel; and on the Straits Settlements, the Dutch East Indies, and Brazil for rubber.

TRADE CHANGES IN OUR EARLY HISTORY

A study of the course of the foreign trade of the United States since 1783 shows that there have been from time to time important changes in the character and direction, as well as in the volume, of our foreign trade. The causes and effects of these changes cannot be clearly understood unless we take into account the concurrent facts of our political as well as our economic history and of the political and economic events in foreign countries. It is, however, beyond the scope of this article to do more than indicate some of the more striking incidents. It will suffice to call attention to the fact that the continental wars of Europe in the early years of the nineteenth century gave a decided stimulus to the export trade of the United States, just as the heavy immigration from Europe following the revolutionary movements of 1848 and the potato famines of Ireland of about the same period contributed largely to the increase of population and the expansion of the agricultural industries of the Middle West and thereby to the growth in our exports of agricultural products. The passage of the Corn Laws in England had a marked effect on farm development in this country, while, of course, the invention of the cotton gin several decades earlier stimulated the production of cotton in our Southern States to the point where the United States soon became the world's primary source of supply for cotton.

The Civil War, or what Henry Watterson, in his recent memoirs, calls the War of the Sections, cutting off as it did the United States from its European sources of manufactured goods, brought about a marked development in our manufactures, particularly in the North, a growth which proceeded at a rapid rate in the five succeeding decades. Moreover, it led to a more rapid settlement of the country west of the Mississippi, while several decades of transcontinental railroad building made available not only to the people of this country but also to the world the vast agricultural, mineral, and forest resources of the great valley between the Appalachian and Rocky Mountain systems.

CHANGES SINCE THE CIVIL WAR

The three decades following the Civil War constituted a period of rapid and at times almost feverish development of the resources of all sections of the country. This was the period of greatest railroad building in the history of the world and of the most extensive land settlement and mine and forest exploitation in this or perhaps any country's history. It was a period of intense absorption in the initial development on a large scale of our own great agricultural, mineral, and forest resources, a movement which was assisted by a vast immigration from Europe and the investment of huge amounts of European capital. The development of the great natural resources of the Middle West and Far West was approaching its climax in the closing years of the nineteenth century and was then yielding place in popular interest to that equally remarkable development of manufacturing industries which has been in effect for several decades.

The last fifty years have also witnessed the rapid settlement and development of other sections of the world and therewith a remarkable increase in the world's wealth and in international trade. Thus, the self-governing dominions of the British Empire—Australia, South Africa, Canada, and India—have progressed by leaps and bounds and out of all ratio to the increase in population. Australia advanced first by reason of the gold discoveries and then as a result of the development of sheep raising and grain production; South Africa, as a result of the discovery of diamonds and gold; Canada, because of its agricultural and lumber production; and India, by reason of its general economic advancement. During this period, Japan, and in a lesser degree China, made quick response to the stimulus of occidental ideas, while some of the nations of Europe, such as Germany, also made remarkable progress. At the same time certain Latin American countries, notably Mexico, Argentina, Brazil, Chile, and Uruguay, attained places of importance in the world's economy.

The fifty years preceding the outbreak of the recent war in Europe was a period of intensive development of the world's resources. The production of all food supplies and basic raw materials advanced at a progressive rate. International trade became more extensive in response to increased demands for the goods of other nations and was facilitated by the improved mechanism

of trading. Just as the building of transcontinental railroads assisted in the development of the resources of our Western States and in the binding together of this nation, so did the development of the steamship assist in the exploitation of the resources of many virgin countries and result in closer trading relations among the nations. With the slower, smaller sailing vessels, the economic development of such remote lands as Australia, New Zealand, South Africa, Japan, China, and India, would have been far less advanced than it is today. The cable also brought the nations closer and facilitated international trade. Investment of capital abroad by the older nations of Europe, particularly Great Britain and France, and the comparative peace of the world for several decades prior to 1914, were a stimulus to rapid and efficient exploitation of the resources of nearly every section of the earth.

CONDITIONS AT THE CLOSE OF THE NINETEENTH CENTURY

Toward the close of the last century there was apparent a decided change in the character of the foreign trade of the United States both on the import and on the export side. This was coincident with the change in the trend of our economic development. The produce of our farms was not mounting in quantity as formerly. It began to appear that we were reaching the peak of our production of wheat, corn, and the other grains, and that we had about reached the maximum number of cattle and sheep that could be sustained on our lands. This condition was reflected in our exports although the rise in prices beginning in 1897 tended to cover up the annual decline in quantity of exports in the case of many of these leading agricultural products. At this time manufactured goods began to be exported in increasing volume and there was a corresponding increase in the importation of raw materials and of semi-manufactured products.

Even if the war in Europe had not occurred this shift in the character of our imports and exports would have continued in the direction of an increasing proportion of manufactured products in our exports and of a corresponding increase in the proportion of raw materials and semi-manufactured products in our imports. It would have been accompanied by a gradual liquidation of our indebtedness to Europe which had been created by European investments in the United States, and also by a rapid extension of investments of American capital in foreign lands.

The recent war has accelerated certain pre-war tendencies in our foreign trade and has produced conditions that are decidedly new. The war has changed us from a debtor to a creditor nation and whereas formerly we owed Europe four or five billions, Europe is now indebted to us, if credit be given for the American securities still held there, to the extent of nine or ten billions. It has given us increased financial power. It has given us a merchant marine which we probably would not otherwise have had for many years. It has brought about a more rapid extension of our trade in foreign markets and a better understanding of the need and importance of foreign trade. It has resulted in a tremendous increase in our production of all classes of manufactured goods as well as of mineral, of forest, and even of agricultural products, at the same time introducing certain new industries. The war, too, has practically stopped immigration. Whereas before the war the number of immigrants ranged from 700,000 to more than a million persons annually, during the war the number was very limited, and there is prospect that in the immediate future it will still continue small.

EFFECTS ON OUR TRADE POSITION

All these changes produced by the war have altered our position in international trade very materially. Our position as a debtor nation required us to pay several hundred millions of dollars to Europe annually in interest and acted as a spur to our export trade, but by the same sign the liability of Europe to us for 500 or 600 million dollars in interest may operate, in the immediate future at least, as a hindrance to our export trade.

The war has also had a profound effect upon the economic development of other countries and has thereby altered their standing in international trade, to the advantage of certain countries and to the detriment of others. The full force and effect of the changes produced are difficult to gauge amid the uncertainties of the transition period. Not until a conclusive peace has been signed and accepted and the nations have begun to devote their whole energies to peace-time pursuits, can forecasts be made with any assurance.

RECOVERY IN EUROPE

Of all the nations of Europe probably none have been affected by the war more than have Great Britain and Germany. While

the former lost heavily in ships and also lost some ground in foreign trade, and piled up a huge debt which must place a heavy tax burden upon her industries, nevertheless the necessities of the war acted as a spur and not only introduced important new industries, but also revitalized most of the old ones, which have in many instances new and larger plants, more modern machinery, and more modern methods of manufacture. The industrial outlook for Great Britain was described by Lloyd George three years ago in these terms: "A new Britain is being developed, a new industrial Britain. Under the great pressure of the war we are increasing and improving and quickening our industrial resources to an extent which would have been impossible but for the demands of this conflict."

The effects of the war on economic conditions in Germany cannot be appraised with much accuracy as yet. This much, however, is certain; the terrific loss of men must cripple many German industries for years; while the rehabilitation of her railroads and of a considerable number of plants in which machinery was worked to a feverish limit during the war, will require several years at least. Moreover, the low stocks of important raw materials for which Germany is chiefly dependent upon other countries, coupled with her crippled financial position, must further retard her resumption of industry. Then, too, the loss of Alsace-Lorraine will deprive Germany of her most important source of iron ore. The loss of the coal supplies of the Saar Valley would also have an effect. Add to these the payment of heavy indemnities, which will doubtless be imposed, and the relinquishment of most of her merchant marine, it seems clear that it will be years before Germany can again assume an important position in international trade. And yet, freed from the burden of maintaining large military and naval establishments and with the well-recognized organizing ability of her industrialists and the thrift and industry of her population, no one can predict how soon Germany will take an influential place in international trade.

The effects of the war upon the industries of Belgium and France need not be recounted. The numerous blast furnaces, textile mills, machine shops, sugar mills, and coal mines of Belgium and northern France have been either completely wiped out or so

badly damaged as to require years for making the necessary repairs. The fertility of large areas of agricultural land has been greatly impaired and hundreds of thousands of cattle and work animals have been destroyed or consumed. The speed with which Belgium and France are restored to their former industrial position will depend largely upon the amount and character of the indemnities they receive from Germany and upon the financial assistance extended them by their allies. The people of both Belgium and France are noted for their habits of industry and thrift, and, while there have been heavy losses in man power, these losses will be compensated for in part by the modernizing of industry and the introduction on a large scale of labor-saving machinery and methods. With Alsace-Lorraine France will not only secure a considerable increase in territory and population, but also enormous deposits of iron ore which have great value with the improved processes of smelting perfected since 1870, in addition to valuable stores of potash. If France also obtains, either permanently or for a limited term, the coal of the Saar Basin, she will be in a position of greater economic independence than she has been at any time since coal and iron began to determine the industrial importance of a nation.

The industrial districts of Poland—those near Warsaw in particular—have suffered heavily through actual destruction, or through pillage by the Germans. Large textile and other mills which were in or near Warsaw, Lodz, and other Polish industrial centers, will not be restored to their former activity for many months or perhaps years.

The economic rehabilitation of Russia is doubtless the most uncertain factor in the equation. If political conditions gave only a slight promise of betterment within the coming year, it would be far easier than it is at present to gauge the future of world trade, since Russia under ordinary conditions furnishes a large proportion of the world's supply of grain, lumber, hides, wool, manganese, platinum, and other commodities, and is now a very large but uncertain debtor to Great Britain and the United States as well as to France.

EFFECTS OF THE WAR IN OTHER PARTS OF THE WORLD

While in most sections of Europe the war destroyed or impaired industry, in other parts of the world it acted as a great

stimulus to industry. Absorption of the leading countries of Europe in the war stimulated agriculture, mining, and manufacturing elsewhere. These industries were stimulated not only in the United States but also in Canada, most of the Latin American republics, Japan, China, India, the Dutch East Indies, and South Africa. The stimulus of war has greatly increased the world's production of many commodities, as for example, wheat, corn, sugar, and rice, among agricultural products; copper, lead, and zinc, among the metals; iron and steel, textiles, machine tools, and meat products, among the more important manufactured products.

One of the significant effects of the war has been the shift in sources of supply for certain commodities. Manganese is an example. Formerly it was received from southern Russia but now, so far as the United States is concerned, it comes from Brazil. The shutting off of supplies of platinum from Russia, the world's principal source, stimulated the production in Colombia, the only other important source. The inability to secure optical glass and dyestuffs and other important chemicals from Germany has stimulated the production of these commodities in England and the United States.

The shortage of shipping during the war also has had a profound effect upon world trade. The scarcity of ships necessitated their use on the shortest routes regardless of the cost of commodities. Speed in delivery, not price, was the controlling factor. Huge quantities of grain, wool, mutton, and hides in storage in Australian ports although they could be had at prices far below those of similar products raised in the Argentine and the United States, but the time required for the voyage to Australia barred out most of the ships ordinarily engaged in that trade. The same was true of the sugar of Java. Time was of the essence and the nearest market was given the preference. This has had the effect of establishing more direct routes for American trade. Rubber, tin, and other commodities from the Straits Settlements and the Dutch East Indies come to us directly from those parts instead of by way of London and Rotterdam. Our trade with South America and the Scandinavian countries is also routed more directly.

OUR DISAPPEARING TRADE BALANCE

Contrary to the belief of many Europeans, the war alone is not responsible for the great increase in our foreign trade. The war doubtless accelerated the development of that trade, but the fact is that our trade with other countries was increasing in volume rapidly for at least a decade prior to 1914.

Far from helping, the great excess of value of exports over imports, produced by the abnormal war demands of Europe, has become so great as to threaten a temporary impairment of our foreign trade at a time when this trade is needed to take up the slack of the after-war period.

This check need not cause alarm. It is a natural reaction from the long period of extensive foreign buying in our markets. During the war the so-called favorable balance of trade has been liquidated in part by the return of several billions of American securities and by the payment of more than a billion dollars in gold, but an even greater amount is still due us in the form of British and French government loans of approximately one and a half billions, raised through private banks, and in credits of upwards of nine billions extended by the United States government.

It is clear that Europe cannot continue to import in large volume from the United States, without some new financial arrangements. Even if some satisfactory method of financing should be devised, the new credits would be absorbed largely in purchases of food-stuffs, necessary raw materials, and semi-manufactured products and not enough would be available for the conduct of a broad general trade on a very extensive scale.

Europe does not, however, appear to be demanding new credit facilities in this country except for the most necessary commodities. The countries seemingly most in need of credit are taking active steps to reduce their imports to the lowest possible level so as to revive their domestic industries as well as to right the balance of trade which has been heavily against them for several years. Passively these countries have withdrawn their support from the exchange market and are permitting exchange on New York to fall, largely no doubt, with a view to making this market an expensive one in which to buy.

Since Europe is now heavily in our debt and is desirous of

incurring as little additional indebtedness as possible, and since most European countries are not ready to export manufactured goods and raw materials even to the extent of the pre-war volume, and are not in a position to ship much more gold in liquidation of trade balances, the only immediate recourse of the countries indebted to us is to reduce to the lowest limit possible their importations from all sources and in particular, those from the United States. The stern facts of their economic situation demand this.

MAINTAINING EXPORT TRADE, THOUGH NOT AN EXPORT BALANCE

Nevertheless, Europe must buy in this market large quantities of foodstuffs, cotton, lumber, hides, copper, and other necessary raw materials, and also certain classes of iron and steel products, machinery, etc. During the coming year these purchases will probably far outrun in value our purchases from Europe. How will Europe liquidate this unfavorable trade balance in addition to paying 500 or 600 millions of dollars in annual interest on her debt to us? How can we make this market a favorable market for Europe to buy in? There are several possible solutions of this problem, namely:

(1) We might invest largely in public-service and industrial enterprises in France and Belgium, either by putting capital into new enterprises or by purchasing the securities of established companies. Both countries will require immense amounts of new capital until their industries are restored and will probably look to the United States for much of it.

(2) We might increase our importations of certain raw materials or semi-manufactured materials. Since, however, we were accustomed to importing these commodities in large volume from Europe before the war, we cannot hope to increase their importation in any considerable degree.

(3) The liquidation, as formerly, through London of increased balances due certain of the possessions of Great Britain in their trade with us would operate as offsets. And an increase in our imports of jute, tea, etc., from India, of tin and rubber from the Straits Settlements, and wool, hides, etc., from Australia and South Africa would, therefore, be helpful. The proceeds of the

sales of these commodities really go in large measure to British capital and in the international exchanges operate as offsets in the account of Great Britain with us. Likewise the income from French and Belgian investments abroad would operate to bring up the items on the credit side of those countries. The exchange situation as between Europe and the United States would, therefore, be helped by our increased importation of the produce of the overseas possessions of Great Britain, France, and Belgium, or from countries in which they have large investments.

(4) Exports could be maintained more nearly at their present level if the flow were directed somewhat from Europe and more into other parts of the world, either in direct sales or in the form of investments. Little would be gained, however, so far as our trade balance with Europe is concerned, if our foreign trade activities in other markets deprived Europe of its customary trade in those markets. The most helpful activity would be by way of investment. Now that the United States is a creditor nation the tendency to make investments abroad will be more marked; in fact, since France and Belgium and Germany will not be in a position to make foreign investments for a number of years to come, and Great Britain's power to do so will be greatly diminished, the United States will be required by force of circumstances to become the great investing nation. This will merely accelerate a tendency well under way when the war broke out, for the field of our investment was then widening so as to include Chile, Peru, Argentina, and Brazil, as well as the nearer countries of Canada, Mexico, Cuba, Porto Rico, and the Central American countries.

(5) The resumption of travel in Europe will doubtless help to restore the balance since it is probable that the number of Americans desiring to visit Great Britain, France, Belgium, and Italy will be greater than ever.

(6) The remittances of Americans to relatives and friends in Europe will doubtless be far in excess of sums thus sent in the past, since there will be large demands on the generosity of the more fortunate kinsmen in the New World. This, too, will tend to restore the equilibrium in the trade balance.

(7) In the matter of payments to Europe on account of services, as for instance, freights and marine insurance on American goods,

it is hardly possible that the net outgo will be as great as before the war, since we are now less dependent on foreign ships and on foreign marine insurance companies. We cannot, therefore, look in this direction for any compensating factor in the trade balance.

INVESTMENTS IN EUROPE MOST IMPORTANT

Of all these possible solutions that of large-scale investments in European enterprise seems the most practical. A feasible method of financing purchases of machinery and equipment as well as raw materials for industrial plants damaged in the war, would be for the American manufacturers or producers furnishing these commodities, to arrange with their bankers or investment brokers to take in payment the bonds or preferred stock of the concern. Or it might be financed on a much larger scale in some such manner as the following: A syndicate of iron and steel manufacturers in Belgium, for instance, might pledge their joint resources and credit as security for loans from a syndicate of Belgian banks. The bonds or notes covering these loans might then be sold to a syndicate of American bankers, who would probably find a good market in the United States for securities of such high character.

Some satisfactory arrangement for financing the needs of Europe will doubtless be found. This means that it is only a question of time before Europe will resume heavy buying of a number of raw materials and many staple lines of manufactured goods, such as iron and steel products of various sorts, machine tools, factory equipment, and perhaps steel rails, locomotives, and cars. The importations of most lines of manufactured goods not urgently required for the physical reconstruction of damaged factories and railroads will probably be deferred for a considerable period.

The war, it is clear, has changed, at least temporarily, the character, extent, and direction of our foreign trade. While it has freed us from indebtedness to Europe, it has made us more dependent on other parts of the world for supplies of foodstuffs and many important raw materials. This dependence increases as our population grows, as our manufacturing industries become larger and more diversified, and as the costs of interior transpor-

tation in the United States become higher. In addition we shall find it necessary to receive interest payments on foreign investments and on loans to foreign governments largely in the form of foodstuffs, raw materials, and semi-and wholly manufactured goods. This will tend to facilitate importation and to make us more largely dependent on other countries than we now are. Our proud boast of economic self-sufficiency can be made with less assurance now than formerly.